

MINUTES OF THE JOINT EXECUTIVE APPROPRIATIONS COMMITTEE
September 18, 2007 at 1:00 p.m.
Room W135, House Building, State Capitol Complex

Members Present: Sen. Lyle Hillyard, Co-Chair
Rep. Ron Bigelow, Co-Chair
Sen. Peter Knudson, Vice Chair
Rep. Rebecca Lockhart, Vice Chair
Sen. Curtis Bramble
Sen. Gene Davis
Sen. Mike Dmitrich
Sen. Dan Eastman
Sen. Patricia Jones
Sen. Sheldon Killpack
Sen. Ed Mayne
Pres. John Valentine
Rep. Ralph Becker
Rep. David Clark
Speaker Greg Curtis
Rep. Brad King
Rep. David Litvak
Rep. Carol Spackman Moss
Rep. Gordon Snow

Members Excused: Rep. Brad Dee

Staff Present: Jonathan Ball, Director, LFA
Greta Rodebush, Legislative Secretary

Speakers Present: Tenielle Young, Governor's Office of Planning and Budget
Steve Allred, LFA
Dr. David Sundwall, Utah Department of Health
Michael Hales, Utah Department of Health
Carlos Bracerias, Utah Department of Transportation
Dr. Richard Kendell, Board of Regents
Benjamin Leishman, LFA

A list of visitors and a copy of handouts are filed with the committee minutes.

1. Call to Order - Approval of Minutes

Committee Co-Chair Hillyard called the meeting to order at 1:21 p.m.

MOTION: Co-Chair Bigelow moved to approve the minutes for July 17, 2007. The motion passed unanimously with Sen. Eastman, Sen. Davis, Sen. Dmitrich, Sen. Mayne, Rep. Becker, Rep. Moss, and Rep. Lockhard absent for the vote.

2. Federal Funds Report

Tenielle Young, Governor's Office of Planning and Budget, presented the Federal Funds Report for the period July 1, 2007 through August 31, 2007. She briefly explained one new grant requiring legislative action: Utah Department of Human Services: Strengthening Families/Circle of Parents Interim Group with a federal annual award of \$375,000 and a state annual match of \$66,000 from existing program budgets. In addition to the new grant, there was one reapplication of an existing grant requiring legislative action. Ms. Young also noted that six new grants and one reapplication of an existing grant have been approved by the Governor's Office.

MOTION: Co-Chair Bigelow moved to approve one new grant and one reapplication of an existing grant requiring legislative action listed in the Federal Funds Report for the period July 1, 2007 through August 31, 2007. The motion passed unanimously with Sen. Eastman, Sen. Davis, Sen. Dmitrich, Sen. Mayne, Rep. Becker, Rep. Moss, and Rep. Lockhard absent for the vote.

3. Statewide Nonlapsing Balances

Steve Allred, LFA, reported on statewide nonlapsing balances between FY 2001 and FY 2007. The report included two documents: (1) Nonlapsing Appropriation Balances, July 17, 2007, and (2) Nonlapsing Appropriations Balances, Addendum to Appendices with Preliminary FY 2007 Balances excluding Higher Education, September 18, 2007. Report findings show the following:

- ✓ With the exception of large balance decreases attributed to Legacy Highway progress, nonlapsing balances statewide have increased by 44% from FY 2003 to FY 2006.
- ✓ As a proportion of total appropriations, non-transportation related balances have increased from 2.7% to 3.25% (a 20% increase) from FY 2003 to FY 2006.
- ✓ State agencies do not accurately predict balances when submitting initial appropriations requests; thus legislators may believe balances are declining when they grant nonlapsing authority.

The report recommends shifting nonlapsing intent language from budgets in advance of a fiscal year to budgets in the supplemental year. The Analyst believes that granting nonlapsing authority nearer to the end of a fiscal year allows for better estimation of available balances, provides greater accountability for potential uses of such balances, and permits the Legislature more flexibility in prioritizing spending.

Pres. Valentine referenced Appendix B, Nonlapsing Balances by Agency and Percent of Budget, and inquired about the high nonlapsing balances in higher education. Spencer Pratt, LFA, stated that he has approached the University of Utah about their particular set of circumstances. The University has built up reserves to cover unanticipated and anticipated expenses such as budget deficits, escalation in major remodeling projects, equipment purchases, inflation, and decline in enrollment. Preliminary FY 2007 balances indicate that the University of Utah will have a projected \$15.4 million nonlapsing balance, 4.9% of total budget as compared to the FY 2006 balance of \$28 million with an 8.0% of total budget.

Mr. Allred clarified that any carry forward nonlapsing balances can be expended by an agency or institution as they so choose unless those funds have designated restricted purposes.

Rep. Snow asked Mr. Pratt to reconcile his explanation of nonlapsing balances for the University of Utah with the Chart in Figure 11 in Appendix A, Nonlapsing Balance Trends by Appropriations Subcommittee, which shows steady increases in nonlapsing balances in higher education. Mr. Pratt pointed out that while he did not have responses from other institutions, there is a definite upward trend.

Mr. Ball pointed out that at the request of Sen. Bell, Co-Chair, Higher Education Appropriations Subcommittee, Mr. Pratt has been directed to examine trends in individual line items at each of the institutions.

Rep. Clark expressed concern about large carry overs in Insurance and Debt Service.

Sen. Bramble asked if some of the nonlapsing funds are specifically targeted or if there is a great deal of discretion on how those funds are used. Mr. Allred explained in the case where funds are appropriated from a restricted fund, nonlapsing balances should be spent for purposes consistent with the restricted fund.

Jon Ball, LFA, added that expenditures are restricted by line items as well. He suggested reestablishing multiple line items that will limit the flexibility on how funds are used.

Sen. Bramble requested that more information be provided on original funding sources and that this information be made available to the subcommittees before the next budget year.

Rep. Bigelow requested that this information be separated into three categories: funds that have statutory restrictions, funds that have specific uses as identified by subcommittee, and funds that are without restriction within a line item.

Co-Chair Hillyard recommended that the chairs of each subcommittee take a look at those funding sources as well.

4. Utah's Medicaid Prescription Drug Program

Dr. David Sundwall, Executive Director, Department of Health, offered introductory remarks.

Michael Hales, Director of Health Care Financing, Department of Health, presented an overview of the Medicaid Prescription Drug Program. He also reported on the implementation of S.B. 42, Preferred Drug List (PDL) (2007 General Session). Additionally, Mr. Hales briefed the committee on the implementation of provider rates associated with the savings from the PDL. His report indicated the net savings of the required transfer of state Medicaid clients to federal Medicare under the Part D clawback program is about \$4 to \$5 million.

The PDL will begin implementation October 1, 2007 with estimated savings from the first drug category at \$360,000 General Fund. Mr. Hales feels confident that the department can accurately project savings from the PDL and use it for provider rate increases effective January 1, 2008.

Mr. Hales responded to questions from committee members. He clarified that savings realized through the Prescription Drug Program will be used to increase the reimbursement rates to physicians and dentists based on the number of Medicaid patients seen. Prescription drug utilization patterns over a two year period offer predictable base line information that will assist in providing sustainable savings to the providers. Currently reimbursement rates are 25% to 35% behind market commercial paid reimbursement rates. Mr. Hales does not expect increases will match those rates; however, there is a commitment to increase reimbursement rates as savings and supplementary rebates become available. He expects to see fewer physicians exiting the Medicaid Program as more competitive reimbursements rates are offered.

Dr. Sundwall pointed out that there is enthusiastic support from the Utah Medical Association and the dental community in encouraging physicians and dentists to participate in the PDL and Medicaid.

Sen. Hillyard expressed concerned about how the reimbursement rate process will work as savings fluctuate from year to year. Mr. Hales explained that intent language puts a cap on the amount of dollars that can be expended back to the providers in FY 2008. Target reimbursement amounts have been set based on projected savings in the PDL. If the savings exceed the target, there would not be an increase in the payout. If the savings were less than expected, the targeted reimbursement amount would remain in place.

Mr. Ball confirmed that intent language requires the Office of the Legislative Fiscal Analyst to track and report those savings to the Legislature. The language also directs LFA to establish a separate program for prescription drugs apart from the rest of the Medicaid program allowing greater accountability for the program and observing trends in reimbursements. Finally, intent language directs \$5.3 million dollars in increased reimbursements to providers through a legislative appropriation that takes effect on July 1.

5. Progress of East/West Corridor Study

Carlos Bracerros, Deputy Director, Utah Department of Transportation (UDOT), presented a brief update on "HB108 Transportation Study - East-West Corridors in Salt Lake County and Counties of the Second Class" (R. Bigelow). He informed the committee that UDOT and the Transportation Commission have hired consultants to assist department engineers in conducting studies required in legislation. The Department is concentrating their efforts on studies in Davis/Weber, Salt Lake, Utah, and Washington Counties where significant growth has occurred and future planned growth will impact the transportation system. A final report will be presented to the Executive Appropriations Committee before November 30, 2008.

Mr. Bracerros also provided the committee with "Utah's Unified Transportation Plan, 2007-2030," a statewide transportation plan that summarizes major capacity improvement projects for the Department of Transportation and four metropolitan planning organizations.

6. Higher Education Low-Cost Degree Programs

Commissioner Richard Kendell, State Board of Regents, presented a report that addresses H.B. 150, Item 129, intent language that requires the "State Board of Regents to submit a plan to the Higher Education Appropriations Subcommittee during the 2007 interim, showing how the Utah System of Higher Education will deliver five different two- and four-year degrees at a per-student cost of no more than \$500 per year, accommodating at least 10,000 students during FY 2009."

Commissioner Kendell presented low cost degree options in the Utah State System of Higher Education using only the direct costs of instruction (faculty salaries and benefits, and limited current expenses related directly to instruction of students). The costs for Associates degrees are \$4,006 at Dixie State College, \$4,248 at Salt Lake Community College, and \$4,986 at Utah Valley State College (compared to a USHE average of \$5,424). The costs for Bachelor degrees are \$11,222 at Dixie State College and \$12,282 at Utah Valley State College (compared to a USHE average of \$14,293). He also covered student costs at private not-for-profit and for-profit institutions. These institutions have significantly higher cost degree programs, with the exception of Brigham Young University.

Commissioner Kendell mentioned some low cost program parameters in creating low-cost degrees: focusing on low cost disciplines (Business, Education, Humanities, Social Science, and Physical Education), using on-line instruction, limiting student services, not providing any lab, experimental, or hands-on learning, and focusing on a student population of highly motivated students who maximize Advanced Placement and Concurrent Enrollment.

Commissioner Kendell stated that a target of \$500 per year would not be possible, but a more realistic target would be \$2,500 to \$3,000.

Sen. Bramble asked Commissioner Kendall to comment on the cost of on-line courses as compared to costs of courses offered in the classroom. Commissioner Kendell said that while there has been an upsurge in on-line courses, it has been his observation that costs are running pretty much the same.

Commissioner Kendell responded to a number of Rep. Bigelow's questions. He clarified that the targeted per student cost of \$2,500 to \$3,000 represents direct cost of instruction; the previously mentioned direct costs of instruction for low cost degree options represent about 60% of current actual costs. Commissioner Kendell noted that 600 students system wide have taken advantage of the New Century Scholarship. In response to a request for the cost savings if the number of students taking advantage of these options were increased, Commissioner Kendell said that a forecast could be prepared showing balances after revenue and costs were factored in.

Rep. Bigelow encouraged the Utah System of Higher Education to continue looking at models that will deliver degrees to students at a cost that does not exceed the direct cost of instruction.

7. FY 2007 Surplus

Jon Ball, LFA, presented the handout: "FY 2007 Surplus (In Millions) As Calculated by the Utah Division of Finance as of 9/18/2007." Mr. Ball stated that these numbers have not been audited yet and final figures will be available in October or November, in advance of the adoption of Revenue Estimates in December.

According to the Division of Finance, there is a revenue surplus of \$65 million - General Fund and \$177 million - Uniform School Fund. This reflects \$22 million for Deposits to the Disaster Relief Fund and \$2 million for Set Aside for Industrial Assistance. Other balances include: \$171 - General Rainy Day Fund; \$143 - Education Rainy Day Fund; and \$34 million - Disaster Recovery Fund.

Mr. Ball noted that upcoming revenue forecasts will show that these increases will more than likely not continue in the current fiscal year or the following fiscal year. In regards to the \$65 million surplus in the General Fund, \$21 million represents investment income from large surpluses earning interest. Investment income will not continue to grow at the same rate.

Co-Chair Hillyard asked about paying back \$17 million to the General Rainy Day Fund which was borrowed during deficit years. Mr. Ball stated that the Committee could appropriate monies to any one of the rainy day funds.

Co-Chair Hillyard mentioned that Sen. Bell had concerns about the nonlapsing balances in Higher Education. These concerns will be addressed pending a future report.

8. Charter School/Local District Funding Formula (Agenda Item #7)

Ben Leishman, LFA, commented on the Memorandum "Local Revenue Funding Formula for Charter Schools and Local School Districts," dated September 10, 2007 and made reference to "HB 164 Charter School Amendments, a Report of Progress by State Superintendent of Public Instruction Patti Harrington, September 18, 2007."

Mr. Leishman explained that Section 19 of H.B. 164 "Charter School Amendments" requires the State Board of Education and the State Charter School Board to jointly conduct a study on charter school funding and to "develop a joint proposal for unifying charter schools and district schools into the same district local funding formulas while maintaining the unique purposes, exceptions, and local parental control that currently exists for charter schools."

In addition to the efforts of the State Board of Education and the State Charter School Board, a small group of interested stakeholders (legislators, two school district superintendents, the State Superintendent, members of the State Charter School Board, and members from associations representing local school boards, the PTA, and charter associations) has met a number of times to discuss a local revenue sharing formula, allocation, and delivery options. Mr. Leishman noted that State Superintendent, Patti Harrington, has stopped the work of the two boards and will continue to support the stakeholder group which provides a broader base of interested parties.

It is anticipated that the work of the stakeholder group will inform legislation establishing a local revenue sharing mechanism between the district schools and charter schools.

Co-Chair Hillyard indicated that the committee would review the report and if there were any questions this item could be placed on next month's agenda.

9. Accountability for Previous Session Fiscal Note Bills and Building Block Appropriations (Agenda Item #8)

Co-Chair Hillyard indicated that this agenda item would be heard in next month's October meeting.

10. Other Business (Agenda Item #9)

Co-Chair Hillyard entertained a motion from Sen. Mayne.

MOTION: Sen. Mayne moved to adjourn. The motion passed unanimously.

Co-Chair Hillyard adjourned the meeting at 3:18 pm.